

Message Text

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ACTION EB-07

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SP-02 AID-05 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04

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C O N F I D E N T I A L KINSHASA 7354

E.O. 11652: GDS

TAGS: EFIN, EGEN, CG

SUBJECT: BALANCE OF PAYMENTS STRATEGY FOR ZAIRE

REF: (A) KINSHASA 4628, (B) KINSHASA 5652, (C) KINSHASA 6935

1. MUCH OF OUR CURRENT FOCUS IS UPON ECONOMIC/FINANCIAL CONTRIBUTIONS TO THE ZAIRIANS WHICH REMAIN UNFULFILLED: THE INGA-SHABA OVERRUN FINANCING, THE LOAN TO GECAMINES AND THE FY 77 CIP AND PL-480 PROGRAMS. THE REALIZATION OF THIS ASSISTANCE WILL CONSTITUTE OUR SHARE OF WHAT WE BELIEVE SHOULD BE A COORDINATED EFFORT AMONGST THE DONORS AND INTERNATIONAL FINANCIAL INSTITUTIONS. WE THINK IT IS IMPORTANT TO MOVE AHEAD IN DEVELOPING THIS LARGER STRATEGY OF GARNERING SUFFICIENT ASSISTANCE TO CARRY ZAIRE THROUGH UNTIL SPRING/SUMMER 1977 -- WHEN THE COPPER PRICE AND THE INTERNATIONAL RECOVERY SHOULD TAKE OVER. OTHERWISE WE FEAR ZAIRE'S ECONOMY WILL CONTINUE TO SLIP BACKWARDS.

2. INSTEAD OF CONSULTATIONS AIMED AT INCREASING THE RANGE AND QUANTITY OF BALANCE OF PAYMENTS ASSISTANCE, THE POTENTIAL DONORS HAVE SO FAR MET ALMOST EXCLUSIVELY ON DEBT RESCHEDULING, WITH THE RESULT THAT THE FRENCH PUSHED THROUGH AN AGREEMENT WHICH WE ARE
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INCREASINGLY INCLINED TO BELIEVE ZAIRE WILL NOT BE ABLE TO HONOR.

IN THE PROCESS, THE PRIVATE BANKS ARE RUNNING OUT OF PATIENCE, AND WE ARE NOT OPTIMISTIC THAT THE MEETING IN LONDON ON SEPTEMBER 2 WILL SUCCEED IN REESTABLISHING ZAIRE'S CREDIT WITH THE BANKS. ZAIRE'S PERFORMANCE UNDER THE STABILIZATION PROGRAM IS A KEY FACTOR IN THIS ENTIRE EXERCISE, AND MOST DONORS/CREDITORS BELIEVE THAT ZAIRE IS NOT PERFORMING AS WELL AS IT SHOULD. IT IS TRUE THERE HAS BEEN GOOD PERFORMANCE ON PRICES, CREDIT LEVELS AND WAGES, AND OVERALL GOVERNMENT SPENDING HAS RUN ONLY 8 PERCENT OVER THE IMF GUIDELINE. BUT THIS IS NOT ENOUGH, AND IT WILL TAKE A MAJOR EFFORT BY ZAIRE TO DO BETTER AND TO PERSUADE ITS FRIENDS THAT IT IS REALLY TRYING.

3. WE CANNOT PRESS ZAIRE FOR BETTER PERFORMANCE -- AS WE TRIED TO DO AT THE LAST PARIS CLUB -- IN THE ABSENCE OF SUPPORT FROM OUR ALLIES AND WITHOUT HAVING FIRST PUT TOGETHER THE RESOURCES WHICH COULD FILL THE BALANCE OF PAYMENTS GAP. AS THE MISSION HAS POINTED OUT BEFORE, IT IS NOT ENOUGH TO DEFINE THE PROBLEM. WE HAVE TO COME UP WITH A SOLUTION TOO. THEN WE CAN BE PERSUASIVE. OUR LATEST ECONOMIC ANALYSES SHOW A BALANCE OF PAYMENTS DEFICIT OF ABOUT \$150 MILLION FOR 1976, ASSUMING THE VERY MINIMUM LEVEL OF IMPORTS AND FULL PAYMENT OF INTEREST DUE ON THE EXTERNAL DEBT IN THE LAST HALF OF THE YEAR (REF C). WE BELIEVE WE SHOULD HENCEFORTH ADDRESS BOTH OF THE MAIN ELEMENTS OF THE PROBLEM: ADDITIONAL RESOURCES AND IMPROVED PERFORMANCE.

4. FIRST THE RESOURCES. WE BELIEVE THE ESTIMATED \$150 MILLION GAP COULD BE FILLED AS FOLLOWS:

A) RESCHEDULE REMAINING INTEREST PAYMENTS IN 1976 \$60 MILLION

B) URGENT ACTION ON US CIP FOR FY 77 \$22 MILLION

C) URGENT ACTION ON US PL-480 FOR FY 77 \$18 MILLION

D) IBRD PROGRAM LOAN \$20 MILLION

E) AID FROM OTHER DONORS \$30 MILLION

WE REALIZE OF COURSE THAT IT WILL BE DIFFICULT TO GET ALL OF THE ABOVE ASSISTANCE ON STREAM BEFORE THE END OF THE YEAR. PART OF THE PL-480 FOR EXAMPLE WILL COME THROUGH IN 1977, AND TO THE DEGREE THAT SUCH ASSISTANCE IS NOT FORTHCOMING IN TIME, ZAIRE WILL BE FORCED TO CUT BACK FURTHER ON IMPORTS AND SERVICES. SINCE IMPORTS ARE ALREADY RUNNING BELOW THE MINIMAL \$1 BILLION MARK, WE WILL PROBABLY NEED TO PRESS FOR REDUCTION IN GOVERNMENT EXPENDITURES ABROAD AND OTHER SERVICE PAYMENTS.

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5. OUR GOAL IS TO KEEP THE ZAIRIAN ECONOMY ALIVE DURING 1976 AND TO HELP IT BEGIN TO MOVE IN EARLY 1977 SO THAT BY THE SPRING/SUMMER OF NEXT YEAR, ZAIRE WILL BE IN A POSITION TO TAKE FULL ADVANTAGE OF WHAT SHOULD BE GREATLY IMPROVED INTERNATIONAL CONDITIONS, ESPECIALLY IN COPPER PRICES. TO GET THROUGH 1976 AND INTO THE FIRST HALF OF 1977, MORE WILL BE NEEDED THAN THE COMBINATION OF \$150 MILLION FROM OUTSIDE AND FURTHER CUTBACKS ON THE SERVICES

ACCOUNT. HERE IS WHERE THE IMF CAN COME IN. IF ZAIRE CAN BE PERSUADED TO FURTHER IMPROVE ITS ECONOMIC/FINANCIAL PERFORMANCE, THEN THE FUND WOULD BE PREPARED TO MOVE INTO THE SECOND CREDIT TRANCHE OF ABOUT \$50 MILLION. AND THE PRIVATE BANKS, IN THE LIGHT OF ALL THE FOREGOING, MIGHT LOOSEN UP. INDEED IF THE CREDITOR GOVERNMENTS COULD SEE THEIR WAY CLEAR TO RESCHEDULE INTEREST PAYMENTS DUE TO THEM DURING THE REMAINDER OF 1976, THEN ZAIRE MIGHT BE ABLE TO PAY THE UNGUARANTEED INTEREST DUE THE PRIVATE BANKS--THUS FREEING UP CREDITS NOW BLOCKED BY THE CROSS DEFAULT CLAUSES. THIS WOULD BE A TWIST ON THE PROPOSAL IN PARA 4 ABOVE, BUT ONE WHICH COULD FREE UP EVEN GREATER RESOURCES.

6. PERFORMANCE AND STRATEGY: WE BELIEVE THAT THE IBRD, THE IMF AND THE OTHER DONORS, IF APPROACHED AT A HIGH ENOUGH LEVEL, WOULD GO ALONG WITH THE ADDITIONAL ASSISTANCE OUTLINED ABOVE -- IF ZAIRE CAN GIVE REASONABLE ASSURANCE THAT IT WILL FURTHER IMPROVE ITS PERFORMANCE UNDER THE STABILIZATION PROGRAM. WE THINK WE CAN GET AROUND THIS CHICKEN AND EGG DILEMMA IN THE FOLLOWING WAYS:

A) COMMITMENTS ARE OBTAINED FROM ALL THE PLAYERS THAT THEY WILL BE FORTHCOMING, IF ZAIRE IMPROVES PERFORMANCE.

B) ALL DONORS ALSO AGREE THAT THEY WILL SUPPORT AN APPROACH TO MOBUTU WHICH OFFERS A SOLUTION TO HIS PROBLEM, IF HE WILL AGREE TO STRENGTHEN PERFORMANCE CRITERIA.

C) THE IMF SHOULD TAKE THE LEAD IN THIS PRESENTATION TO MOBUTU. THE FUND COULD USE THE LAST PARAGRAPH OF MOBUTU'S LETTER REQUESTING THE STANDBY TO HAVE THE MANAGING DIRECTOR CALL FOR URGENT CONSULTATIONS.

D) THE IMF WOULD USE THE OCCASION OF AN APPLICATION FOR A SECOND CREDIT TRANCHE DRAWING TO INSIST ON STRENGTHENING PERFORMANCE CRITERIA AND OVERSIGHT MECHANISMS. IT WOULD ALSO BE UNDERSTOOD THAT FURTHER ASSISTANCE FROM THE DONORS WOULD HAVE TO TAKE INTO ACCOUNT THE GOZ'S RECORD OF PERFORMANCE.

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7. WE ARE FULLY AWARE THAT THIS APPROACH WILL REQUIRE PRESSURE AND FOLLOW-THROUGH FROM HIGH LEVELS OF THE USG, AND THAT IS WHAT WE RECOMMEND.
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